THE FALLACY OF "BIG BUSINESS"

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Former President Roosevelt, and many other representatives of the same school of thought, are urging upon the American people the extension of government regulation of industry into the field of industrial combinations. They propose that an interstate trade commission shall be established similar in functions to the Interstate Commerce Commission, which shall regulate the large combinations, securing for the public what they assume to be the advantages of combination and protecting the small producer against extortion and unfair competition.

This program proceeds from the assumption that the so-called industrial trusts, combinations of manufacturing plants under New Jersey holding companies which sprung up in large numbers from 1898 to 1902, represent a type of business organization which, while it contains great possibilities of evil, contains, also, equal possibilities for good. They contend that we have in the trust an advanced type of business corporation which is to supersede the old and, as they claim, outworn regime of competition. This superior type of business organization may be carried so far as to threaten consumers with extortion, and smaller producers with oppression and extermination. It is, therefore, proposed to place the trusts under the supervision of this trade commission, which shall keep them within the paths of rectitude and just dealing.

It needs but slight familiarity with the history of these combinations to show that the assumption underlying this program of trust regulation, the assumption, namely, that the trust represents a superior type of business organization, is unfounded. The primary object in organizing the trust, an object exploited at the time most of them were promoted, was to eliminate or restrict competition. The advantages of the elimination of competition were stated as follows: (1) control of prices, (2) greater ability in dealing with railroads, (3) closer financial facilities with the banks and greater facility in obtaining new capital, and (4) superior ability in dealing with

organized labor. In addition, there were incidental advantages which were little thought of at the time the trust was formed but which are now being brought forward by their advocates as proof of their superior efficiency. Such advantages are the reduction of administrative expenses by centralizing offices and doing away with high priced officials, the saving in advertising, the saving in cross freights, greater advantages in pushing the export trade, and so on. These advantages were not seriously considered at the time the trusts were formed and the main reason, in my opinion, for their emphasis at this time is to draw away the attention of the public from the real reasons underlying the formation of these large combinations.

A second and controlling motive was the financial motive. By twenty companies competing with each other the value of each one of them was reduced because of that competition. If these twenty companies could be combined under one company, a New Jersey holding corporation, because this value reducing competition would be eliminated, their value would be increased, perhaps doubled. The separate companies could be bought for $10,000,000 and sold for $15,000,000 or $20,000,000, because in the combination these plants were more valuable since presumably the profits would be larger in the difference between $10,000,000, the cost, and $20,000,000, the new supposition value, wherein lay a large profit which promoters, underwriters and bankers could divide. In consequence of the dominance of this financial motive, because the parties interested were primarily concerned in making a profit by marketing securities, and had only an indirect and often a remote interest in the future of the companies which were so easily formed and floated, they included in their combinations large numbers of plants which were not only unnecessary but whose operations were so wasteful that they have been since abandoned. In short, the trusts do not represent a natural growth. They are big businesses, it is true, but theirs is a forced, an unnatural bigness. The motives which inspired the formation, to repeat, were not economic and industrial but financial and pecuniary.

The best illustration of the reasons and motives underlying the inception of the industrial trusts is seen in the formation of the United States Steel Corporation. The formation of this company was forced by the threat of Mr. Andrew Carnegie to wage

war upon his rivals in the steel industry. It was formed with the avowed intention of buying out Mr. Carnegie, who was unwilling to take a mortgage on his own plant in payment for his interest therein, but was willing to accept a mortgage on sixty-five per cent of the steel industries in the country in payment for his holdings in the Carnegie Steel Company. The motive of eliminating competition which is so conspicuously evident in the formation of the Steel Trust was present in the minds of those who formed nearly every one of the industrial combinations. This fact has been brought out clearly and conclusively again and again in various investigations. It is as well established as any fact in recent economic history. It is no longer open to question.

The American people are now asked to decide whether these combinations, formed with the avowed intention of restricting or eliminating competition, are to be continued, or whether, in so far as they possess the power to oppress the public, they are to be destroyed by the enforcement of the Sherman law. If the Sherman law is to be continued in force, the large, dominant, monopolistic trusts will be broken up. Under the recent decisions of the Supreme Court the power to oppress the public is clearly regarded as sufficient reason for depriving a company of monopolistic power by dissolving it. Combinations which have been formed for business rather than financial reasons, whose constituent elements complement each other and result in real saving, combinations which are not conspiracies to oppress the consumer, which do not have the power to monopolize trade, have nothing to fear from the Sherman law as interpreted by the Supreme Court. Monopolistic combinations, however, either potential monopolies or companies actually engaged in monopolistic practices, are put under the ban by the oil and tobacco decisions.

The question now is—Is it worth while so to amend or supplement the Sherman law as to continue these large combinations, because of the supposed industrial advantages to the public which they possess, or is it expedient that they be broken up? The solution to this question should turn on the industrial efficiency of these combinations. Here the evidence is entirely negative. There has been no proof brought forward that the trust is a superior form of business organization. All the evidence available, with a few exceptions, points to the opposite conclusion. In so far as these

companies have been exceptionally profitable, as in the case of the oil and tobacco combinations, their profits have been shown to have resulted very largely from the monopoly advantages which they possess. The profits of the tobacco trust, for example, were shown by the Bureau of Corporations to be very large in those lines, such as cigarettes, where they enjoyed a practical monopoly, while in cigars, a business still open to competition, the profits were quite moderate. For the most part, however, the trusts have not been exceptionally profitable. During the decade, 1902–1911, a period of the greatest prosperity and the most remarkable advances in every line of production which this country has ever seen, the combined profits of twenty-eight of these companies, making no allowance whatever for necessary depreciation on their plants, increased only thirty-seven per cent. This is a sorry showing when compared with the general business record during the same period. The prices of the common stocks of the trusts, that portion of their capitalization which represented the economies of combination are, as a class, very low. With but few exceptions these companies have been unable to realize the expectations which were formed concerning them. Even the company which started with the greatest natural advantages, the United States Steel Corporation, now that the Standard Oil Company has been dissolved perhaps the largest and strongest manufacturing corporation in the world, has not made an especially strong showing. Its common stock has not yet reached an investment position. Compared with the successes of the large railroad companies, successes which have been won under most adverse conditions, its showing is most disappointing.

A single illustration will serve to enforce this conclusion. Ever since its formation the United States Steel Corporation has been given a free hand in its price policy. It started its career by a sweeping victory over organized labor. It included the best plants in the country, among others, the Carnegie plants, the finest and best organized machine for the production of steel in the world. The officials of the company included the best men among the constituent companies. The Steel Corporation was a completely integrated concern, owning all the materials of production, owning also the railroads and boats by means of which these materials are assembled at the mills. The Steel Corporation controlled the supply of iron ore, and was able to maintain ore prices at a high level to

many of its competitors. It has enjoyed from the outset the countenance and support of strong financial interests who have been able to throw to it a large amount of business. Its financial resources have been enormous and it has never been cramped for money with which to build and improve. Indeed since its organization it has spent over $400,000,000 on new construction. It has assimilated a number of strong companies such as the Union Steel Company and the Tennessee Coal, Iron and Railroad Company. The Steel Corporation has at all times enjoyed close and friendly relations with its competitors. There has been little price cutting in the steel trade until the past year. And to crown all these remarkable advantages, seven years of its history have been years of enormous and rapidly growing demand for steel which the corporation has supplied at large profit.

The Pennsylvania Railroad is perhaps the largest railroad corporation in the United States. It possesses, however, no such commanding position in the field of transportation as does the Steel Corporation in the field of industry. During the period, 1902–1911, the Pennsylvania and its subsidiary companies have spent almost as much on new construction as the Steel Corporation, but much of this new construction is not yet profitable. Much of it will never be largely profitable. The Pennsylvania has not been able to make material advances in its rates. Its cost of operation, owing especially to the incessant pressure of organized labor, has gone steadily upward. In many respects, however, it is fairly comparable with the Steel Corporation as to size and strength. The Pennsylvania, however, is an efficient industrial machine. It is an organic unit, not a combination of competitors. It is a growth, and not an agglomeration. Let us briefly compare the financial results which the Pennsylvania has achieved with those accomplished by the Steel Corporation. From 1902 to 1911 the gross income of the Pennsylvania system east and west of Pittsburgh increased from eighty-three millions to one hundred and twelve millions, or about 35 per cent, while the gross income of the United States Steel Corporation increased from one hundred and forty millions to one hundred and fifty millions, or 7 per cent. The comparison may be considered unfair, because 1911 was a worse year for the steel industry than for the railroads, but if we go back to 1907, the banner year for steel as for railroads, we still find a marked dif-

ference in the gain in income of the two companies over 1902, and the difference is in favor of the Pennsylvania.

What is true of the steel trust will be found to apply to most of these huge, clumsy and unwieldy combinations. They are not efficient. Their expected profits have not been realized. It would not be unfair to describe many of them as sore disappointments.

Why then should these trusts be continued? What is to be gained by keeping them alive? What business interests will suffer as a result of their dissolution? No plants will be closed, no men will be thrown out of work. A return to the old conditions of cut-throat competition is exceedingly unlikely. Railroads compete, but they do not engage in rate wars. And it is a fair presumption that when the large combinations are broken up into smaller and more manageable units their efficiency of production will be largely increased and the costs of production lowered.

In support of this conclusion we have the recent experiences of the oil and tobacco companies, where the large consolidations have been reduced to a number of smaller though completely equipped concerns. In neither case have the stockholders of these corporations suffered any damage. On the contrary the combined prices of the oil stocks and the tobacco stocks have shown material gains since these combinations were broken up. If then the trusts were not formed to realize any ultimate economy of production; if they were formed with the idea of making money by selling stock representing the capitalization of the profits of restricting competition and maintaining prices; if they gathered together under the control of these New Jersey corporations, numerous and widely scattered plants, often with no relation one to the other, save the relation of monopoly; if they were formed for financial and not for economic reasons, why should not the American people give their sanction and countenance to the movement which is now in progress to break up these corporations into smaller concerns?